

TO: Senate Energy & Technology Committee Members
FROM: Cathy Wilson, Consumers Energy and Renze Hoeksema, DTE Energy
SUBJECT: Misleading Claims Regarding Senate Bill 437's Resource Adequacy Requirements
DATE: May 25, 2016

You may have heard claims by retail energy marketers or others defending the status quo retail open access system that there is a "timing issue" in Senate Bill 437 that effectively kills choice. Quite simply, this "timing issue" does not exist. This is a red herring intended to divert attention from the real issue - the need for all suppliers to line up their fair share of local generating resources to ensure reliability for all of Michigan's families and businesses.

Due to Michigan's geography and the nature of electrical infrastructure, approximately 95% of the generating resources needed to provide energy to Michigan customers in the Lower Peninsula **must** be physically located in the Lower Peninsula to keep the grid stable and reliable. Delaying the timing of when suppliers must demonstrate that they have lined up supply to some point after the Midcontinent Independent System Operator's (MISO's) annual residual capacity auction does not serve Michigan's reliability interests. That's because the MISO auction does not ensure that sufficient local resources will exist to serve Michigan reliably.

- AESs have testified in front of your Committee and acknowledged that the MISO auction does not match participants to the specific physical assets that are needed to ensure reliability within a geographic area. As they said, "that's not how MISO works".
- The current MISO auction is basically a financial market to efficiently line up those who need a little capacity to those who have a little extra. All of this assumes that sufficient capacity actually exists.
- If there is not enough capacity to ensure reliability, participants simply pay a penalty fee and their MISO responsibility is fulfilled. But, the region is still short and still may suffer reliability problems
- MISO does not have the authority to order generation to be built, nor the right structure to encourage new generation investments through price signals because its auction is only for a single year. MISO has acknowledged the shortcomings of its current system through its efforts to establish a 3-year forward capacity auction.

This phantom timing issue completely disappears if MISO moves to a 3-year forward auction. SB 437 is only putting in place a resource adequacy requirement for the subsequent 2 planning years. An AES needs to demonstrate capacity by October. Jump forward in time and think about the AES demonstrating capacity in October of 2019. They would need to demonstrate capacity for the planning years starting in June of 2020 and June of 2021. Under a 3-year forward auction construct, an AES would have participated in an auction in April of 2018 to acquire capacity for June 2020 and in another auction in April of 2019 to acquire capacity for June 2021. That's months before the October demonstration to the Michigan Public Service Commission. An auction is not the only way to ensure reliability. There are other options for suppliers to line up their fair share of local generating capacity – nothing in SB 437 is preventing an AES from building their own generating assets or contracting with others who own assets.

Senate Bills 437 and 438 are the result of years of effort in bi-partisan broad stakeholder workgroups, numerous hours of committee testimony, and input from all interested parties. We hope you will join us in support of this legislation.

Sincerely,

Cathy Wilson, Consumers Energy
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